

**BRIGHT BEGINNINGS, INC.**  
**SEPTEMBER 30, 2007 AND 2006**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Bright Beginnings, Inc.  
Washington, D.C.

We have audited the accompanying statements of financial position of Bright Beginnings, Inc. as of September 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bright Beginnings, Inc. as of September 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Squire, Lemkin + O'Brien, LLP*

November 16, 2007

**BRIGHT BEGINNINGS, INC.****STATEMENTS OF FINANCIAL POSITION**

	SEPTEMBER 30	
ASSETS	<u>2007</u>	<u>2006</u>
<b>CURRENT ASSETS:</b>		
Cash and equivalents	\$ 1,153,451	\$ 891,274
Investments	999,685	464,863
Contributions receivable	159,906	81,116
Accounts and grants receivable	235,874	208,400
Prepaid expenses	33,930	27,161
<b>TOTAL CURRENT ASSETS</b>	<u>\$ 2,582,846</u>	<u>\$ 1,672,814</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	17,000	1,854
<b>OTHER ASSETS</b>	<u>5,000</u>	<u>5,000</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 2,604,846</u></u>	<u><u>\$ 1,679,668</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 29,766	\$ 21,664
Accrued salaries and related liabilities	53,156	55,803
Deferred revenue	1,672	19,914
<b>TOTAL CURRENT LIABILITIES</b>	<u>\$ 84,594</u>	<u>\$ 97,381</u>
<b>NET ASSETS:</b>		
Unrestricted	\$ 2,145,947	\$ 1,502,287
Temporarily restricted	374,305	80,000
<b>TOTAL NET ASSETS</b>	<u>\$ 2,520,252</u>	<u>\$ 1,582,287</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 2,604,846</u></u>	<u><u>\$ 1,679,668</u></u>

The accompanying notes are an integral part of these financial statements.

**BRIGHT BEGINNINGS, INC.**

**STATEMENTS OF ACTIVITIES**

FOR THE YEARS ENDED SEPTEMBER 30,

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT:</b>						
Government contracts and grants	\$ 1,663,526	\$ -	\$ 1,663,526	\$ 1,536,541	\$ -	\$ 1,536,541
Foundation and corporate support	550,225	672,500	1,222,725	408,490	241,605	650,095
Contributions	167,184	-	167,184	164,153	-	164,153
Donated services and equipment	117,276	-	117,276	112,967	-	112,967
Special events	113,475	-	113,475	65,295	-	65,295
Interest and other income	98,843	-	98,843	41,840	-	41,840
Net assets released from restriction	378,195	(378,195)	-	335,759	(335,759)	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>\$ 3,088,724</b>	<b>\$ 294,305</b>	<b>\$ 3,383,029</b>	<b>\$ 2,665,045</b>	<b>\$ (94,154)</b>	<b>\$ 2,570,891</b>
<b>OPERATING EXPENSES:</b>						
Program services	\$ 2,153,243	\$ -	\$ 2,153,243	\$ 1,887,288	\$ -	\$ 1,887,288
Management and general	124,614	-	124,614	138,439	-	138,439
Fundraising	167,207	-	167,207	142,486	-	142,486
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 2,445,064</b>	<b>\$ -</b>	<b>\$ 2,445,064</b>	<b>\$ 2,168,213</b>	<b>\$ -</b>	<b>\$ 2,168,213</b>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 643,660</b>	<b>\$ 294,305</b>	<b>\$ 937,965</b>	<b>\$ 496,832</b>	<b>\$ (94,154)</b>	<b>\$ 402,678</b>
<b>NET ASSETS, BEGINNING OF PERIOD</b>	<b>1,502,287</b>	<b>80,000</b>	<b>1,582,287</b>	<b>1,005,455</b>	<b>174,154</b>	<b>1,179,609</b>
<b>NET ASSETS, END OF PERIOD</b>	<b>\$ 2,145,947</b>	<b>\$ 374,305</b>	<b>\$ 2,520,252</b>	<b>\$ 1,502,287</b>	<b>\$ 80,000</b>	<b>\$ 1,582,287</b>

The accompanying notes are an integral part of these financial statements.

**BRIGHT BEGINNINGS, INC.**  
**STATEMENTS OF CASH FLOWS**

	FOR THE YEARS ENDED SEPTEMBER 30,	
	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 937,965	\$ 402,678
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Reinvested interest income	(11,240)	(9,643)
Depreciation	2,798	676
(Increase) decrease in contributions receivable	(78,790)	58,025
Increase in accounts and grants receivable	(27,474)	(68,293)
(Increase) decrease in prepaid expenses	(6,769)	11,438
Increase in accounts payable	8,102	2,202
(Decrease) increase in accrued salaries and related liabilities	(2,647)	7,800
Decrease in deferred revenue	(18,242)	(2,198)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 803,703</b>	<b>\$ 402,685</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	\$ (17,944)	\$ (1,955)
Purchase of investments	(523,582)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>\$ (541,526)</b>	<b>\$ (1,955)</b>
<b>INCREASE IN CASH AND EQUIVALENTS</b>	<b>\$ 262,177</b>	<b>\$ 400,730</b>
<b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>	<b>891,274</b>	<b>490,544</b>
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	<b>\$ 1,153,451</b>	<b>\$ 891,274</b>

The accompanying notes are an integral part of these financial statements.

**BRIGHT BEGINNINGS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007 AND 2006**

**Note 1. Organization and Significant Accounting Policies**

**Organization** - Bright Beginnings, Inc. (the Organization) was incorporated under the laws of the District of Columbia to operate as a nonprofit corporation. The Organization was formed by members of the Junior League of Washington (JLW), also a not-for-profit organization, to establish a child development day care center to provide a safe and nurturing high quality service to homeless preschool children. It is funded primarily by government and private foundation grants, which are reflected as project revenue throughout the financial statements. The Organization is governed by an independent Board of Directors responsible for the formulation and issuance of policies, regulations and procedures pertaining to the operation of the day care center. The Organization operates as an educational organization exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code and Section 47-1554 of the District of Columbia code. For the years ended September 30, 2007 and 2006, the Organization had no unrelated business income.

**Basis of Presentation** - The Organization presents its financial statements in conformity with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, issued by the Financial Accounting Standards Board. As such, the financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets. At September 30, 2007 and 2006, the Organization did not have any permanently restricted net assets.

**Restricted and Unrestricted Revenue** - Contributions and grants are temporarily restricted to the extent that their availability for operations is restricted by donors based upon the passage of time or the occurrence of certain events. Such restrictions apply only to contributions and grants that have the characteristics of contributions, and not to "exchange" transactions in which the Organization provides a service or product to the funding agency. As such, contributions are recognized as revenue at the earlier of when they are received or unconditionally pledged.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports in-kind gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

**BRIGHT BEGINNINGS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007 AND 2006**

Note 1. **Organization and Significant Accounting Policies (Continued)**

**Cash and Equivalents** - For purposes of the Statements of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

**Investments** - Investments as of September 30, 2007 and 2006 consisted of certificates of deposit with two financial institutions. Investments are recorded at estimated fair value based on quoted prices provided by the investment custodian. Investment income or loss is included in the statement of activities as an increase or decrease in unrestricted net assets unless the income or loss is restricted by donor or law.

**Contributions Receivable** - Contributions are recorded at the earlier of the date received or the date of receipt of a donor's non-contingent promise or pledge. The direct write off method is used for recognition of uncollectible pledges, which, under the circumstances, does not differ materially from the reserve method required under accounting principles generally accepted in the United States of America.

**Accounts and Grants Receivable** - Receivables are for reimbursement of costs incurred under grant and contract agreements. Billed amounts represent invoices that have been prepared and sent to the responsible organization. Receivables are carried at original invoice amounts. Receivables are written off when deemed uncollectible. At September 30, 2007 and 2006, Bright Beginnings, Inc. had receivable balances greater than ninety days outstanding of \$58,892 and \$0, respectively. Recoveries of receivables previously written off are recorded when received. Management feels the amount in accounts and grants receivable is fully collectible.

**Property and Equipment** - Property and equipment is stated at cost, or if donated, at fair market value at the date of receipt. Depreciation is calculated using the straight-line method over the estimated useful life of the assets. Upon disposal of depreciable assets, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is credited or charged to income.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of the assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

**Reclassifications** - Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.



**BRIGHT BEGINNINGS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007 AND 2006**

Note 2. **Concentration of Credit Risk** - Financial instruments that potentially subject the Organization to concentrations of credit risk include cash deposits with commercial banks. The Organization's cash management policies limit its exposure to concentrations of credit risk by maintaining cash accounts at financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Cash deposits may, however, exceed the FDIC insurable limits of \$100,000 at times throughout the year. Management does not consider this a significant concentration of credit risk.

Note 3. **Property and Equipment** - At September 30, 2007 and 2006, property and equipment consisted of:

	<u>2007</u>	<u>2006</u>
Leasehold Improvements	\$ 103,990	\$ 103,990
Equipment	52,061	34,117
Furniture and fixtures	1,700	1,700
Subtotals	<u>\$ 157,751</u>	<u>\$ 139,807</u>
Less: Accumulated depreciation and amortization	<u>(140,751)</u>	<u>(137,953)</u>
Totals	<u>\$ 17,000</u>	<u>\$ 1,854</u>

Depreciation expense for the years ended September 30, 2007 and 2006 was \$2,798, and \$676, respectively.

Note 4. **Donated Services and Equipment** - The Organization received donated professional services and equipment with a value of \$117,276 and \$112,967 for the years ended September 30, 2007 and 2006, respectively. These gifts have been reflected in the accompanying financial statements based on use.

Note 5. **Temporarily Restricted Net Assets** - Temporarily restricted net assets represent grants and contributions pledged or received as of the end of the fiscal year but not yet expended for their intended purpose.

The balance of temporarily restricted net assets as of September 30, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Evening Care Program Funds	\$ --	\$ 80,000
Strategic Planning Grant – Expansion	175,000	--
Staff Development	65,265	--
Time Restricted Contributions	65,000	--
Study – Tracking of former students	40,000	--
Pathways Out of Poverty Grant	15,958	--
Parent Center	10,929	--
Technology Infrastructure Upgrade	2,153	--
Totals	<u>\$ 374,305</u>	<u>\$ 80,000</u>

**BRIGHT BEGINNINGS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2007 AND 2006**

Note 6. **Commitments** - The Organization is committed under a non-cancelable office lease that expires November 30, 2008. Monthly rent under this lease was \$5,878 for the first year with increases of 2% each year, thereafter.

Approximate future minimum rental payments under the lease are as follows:

<u>Years Ending September 30,</u>	<u>Total</u>
2008	\$ 81,793
2009	13,905
Total	<u>\$ 95,698</u>

Rent expense for the years ended September 30, 2007 and 2006 was \$86,407 and \$83,917, respectively.